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BEFORE THE ARIZONA CORPORATION COMMISSION <sup>Arizona Corporation Commission</sup>  
**DOCKETED**

JIM IRVIN

Commissioner-Chairman

CARL J. KUNASEK

Commissioner

TONY WEST

Commissioner

JAN 20 1999

DOCKETED BY

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IN THE MATTER OF THE COMPETITION  
IN THE PROVISION OF ELECTRIC SERVICES  
THROUGHOUT THE STATE OF ARIZONA

) DOCKET NO. RE-00000C-94-0165

) COMMENTS OF THE  
) ARIZONA RETAILERS  
) ASSOCIATION ROBINSONS-  
) MAY, AND MAY  
) DEPARTMENT STORES  
) REGARDING THE  
) RECONSIDERATION OF THE  
) DIRECT ACCESS RULES OF  
) THE ARIZONA  
) CORPORATION COMMISSION

**COMMENTS OF THE ARIZONA RETAILERS ASSOCIATION (ARA),  
ROBINSONS-MAY, AND MAY DEPARTMENT STORES  
REGARDING THE RECONSIDERATION OF THE DIRECT ACCESS RULES  
OF THE ARIZONA CORPORATIONS COMMISSION**

**Opening Statement**

The Arizona Retailers Association members own and operate retail facilities throughout Arizona, including Department Stores, Food and Drug chain stores, as well as small independently owned and operated businesses. ARA members, (including Robinsons-May, et. al.), employ thousands of people throughout the state. The ARA has been an active participant in the restructuring of the Electric Utility industry in Arizona, actively supporting the positions of residential as well as small and large commercial customers. We welcome the opportunity to provide you with our written comments on your proposals to implement re-structuring of electricity services under the Arizona Corporations Commission.

We were in agreement with many of the issues as stipulated in the approved Rule of August, 1998. We are concerned now that the start-up of the competitive marketplace may be subjected to significant delays, and that a quick resolution of outstanding issues, and the approval of a new rule should be completed as quickly as possible to get the process back onto an aggressive implementation schedule.

The following is a brief discussion of those issues we believe need to be incorporated into any new Rule governing Direct Access in Arizona:

**Customer Selection During The Competition Phase-in Period**

The ARA does not support a phase-in of customer eligibility to choose an energy supplier. All customers must benefit from re-structuring. In addition to the commercial and industrial customers, we believe that residential customers must be able to share in the benefits achieved from competition. As Market Participants in California and several other states, our experience leads us to propose the following:

- o **Direct Access should occur simultaneously for all customers.**  
Any phase-in is discriminatory, arbitrary, administratively burdensome, and anti-competitive. Residential, Commercial, and Industrial Users should all be given the opportunity to choose their energy supplier from the first date of eligibility. To do otherwise would create an unfair competitive advantage for some users, that does not exist today.
- o There is no demonstrated need for a regulated phase-in of eligibility. Given the experience in California, and the financial incentives for those who wish to remain bundled service customers, there is strong factual support that a market-driven phase-in will occur as end-users make their choices.
- o Although HB 2663 allows the ACC to implement choice in phases, the ACC is neither

required to do so at all, nor is it required to maintain the percentages as they have been presented. If the ACC remains firm in its desire to have a phase-in, the ARA urges the Commission to consider the following proposals:

- Make speedy determinations of under-subscriptions and re-allocations.
  - Set a minimum time period for customers to make their choice after they have been selected through the lottery.
  - Speed up the phase-in at every available opportunity by allowing greater numbers during each phase for all groups.
- o All the resources and energies that are devoted to creating and supporting a Phase-in program and executing lotteries, and the costs of doing so to consumers, would be better utilized by directing them toward implementing the many other changes required to prepare for competition.

### **Stranded Costs**

The ARA recognizes that stranded costs may exist during re-structuring; but each utility has a responsibility to demonstrate what its stranded costs are. Prudent investment and the regulatory compact are not an entitlement for automatic recovery of any utility's uneconomic asset. Stranded cost recovery should be shared equitably by utility customers without shifting costs, as well as by utility shareholders. Stranded costs created by regulatory mandate should be recovered to the extent that APS and TEP cannot mitigate those costs. Only verifiable, mitigated, net stranded costs should be considered for recovery.

#### **Methods of Determination**

The Lost Revenue Approach should be rejected outright. If a market based approach is used, the Commission must consider that the market value may change during the recovery period, and therefore be prepared to deal with such an occurrence. The final determination should include a netting of assets to account for situations where some generation resources may have a market value in excess of its book value. These "negative stranded costs" must be netted against the positive stranded costs APS and TEP seek to recover.

#### **Recovery Period**

During the public meetings held at the ACC over the last several months, the ARA was led to believe that the actual amount of stranded costs was relatively small, yet we have heard nothing of reducing the ten year time frame in which to recover them. While we believe the release of more specific information from APS and TEP might provide additional insights, we find little support for a recovery period of this length.

APS and TEP should be reviewing those current programs and service costs that can be cut without impairing service quality or reliability in order to reduce the recovery period.

Should the recovery not be completed in ten years, APS and TEP should be prepared to write off any remaining stranded costs.

As long as stranded costs are being recovered, a true competitive market cannot develop. Long recovery periods delay customers receiving the benefits of a restructured electric market.

- o **Divestiture**

While HB 2663 does not require APS and TEP to divest themselves of generation assets in order to mitigate stranded costs, any form of the Net Revenue Lost approach they may propose would only serve to confuse and alienate its customers by failing to provide any certainty of the total stranded cost obligation, as well as clear identification of mitigation that may have occurred during the recovery period.

- o **Palo Verde**

The ARA would support a separation of Palo Verde from any considerations of divestiture, and would be willing to consider alternative strategies for managing the stranded costs involved.

- o **Calculation Methodology**

The ARA urges the Commission to provide a fair and reasonable stranded cost calculation method that does not shift costs between customer classes, does not use statistical load profiles to create class averages, and is easy to understand for all users.

### **System Benefit Charges**

- o The ARA has a concern that costs associated with must-run dispatch for system reliability and environmental mandates are included in the System Benefit Charges. Our concern is in two areas:

- Charges for new expenses in this area should be included in rate cap protection.

- The ARA requests that the Commission unbundle Generation, Transmission, and Distribution services, as well as Revenue Cycle Services, such as Meters, Meter Reading, and Billing.

### **Unbundled Services and Obligation to Serve**

- o The ARA urges the Commission to create metering standards and should publish them at the earliest possible date to allow Customers and ESP's the opportunity to make appropriate decisions.
- o There are minimal references in the prior Rule to "Schedule Coordinators". Assuming the Commission supports the creation and use of a Regional ISO, or a State or Privately supported ISA, or Transco, the ACC should specify the role of Schedule Coordinators in

future operations.

**Solar Portfolio Requirements**

- o The ARA supports a solar program that provides financial incentives to all users and suppliers to include solar and otherwise environmentally friendly power sources as part of their portfolio. We believe the original Rule as proposed, however, place such a high requirement upon suppliers as to restrict entry of ESP's into the marketplace. We believe a compromise is achievable in this area.

We look forward to the opportunity of working with the Commission, and other stakeholders in resolving many of the complex issues at hand, and starting a competitive marketplace as soon as possible.

Please direct any comments or questions you may have regarding this material to:

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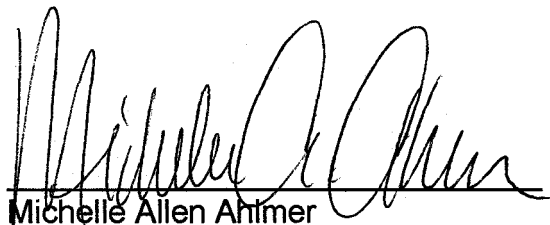
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